

1 aspects, I would assume our marketing folks might be able to
2 sell it a little better. I don't know.

3 (Boren): I think the answer intuitively is that the price of
4 this package would go down in the market place making it more
5 competitive. Now, precisely how much it went down, you know,
6 you could go talk to the pricing folks that do the costing
7 studies and see how much that change in that software package
8 rolls out into the decreased cost of the product in the market
9 place. We don't have that information, but it's certainly
10 available. It wouldn't be a one for one because it's a very
11 complex product, I would imagine, and has lots of loaded cost
12 into it. -

13 (Manion): (____?) I think that's the key, as I think was
14 pointed out earlier, a portion of the processor, the computer,
15 and all the hardware in the switch is also rolled into the
16 cost of delivering that feature, and it's not just purely that
17 software.

18 (Boren): But it would, I mean, assuming accounting systems
19 work, and I've sometimes wondered, but assuming they work, if
20 you get a product associated with a specific software package
21 and that software package is reduced in cost, you ought to be
22 able to reflect that in the reduced cost of the product, and
23 therefore reduced price, therefore you'll be more competitive.
24 The only point we're trying to make is that since the pricing
25 of a particular product that comes out of a switch is not just
26 an assignment of the software that provides that, but also an

1 assignment of other cost in the switch allocated to that
2 product, it wouldn't be a one for one reduction. Because any
3 given product coming out of the switch that supports all
4 products takes a percentage of the total cost of switch, as
5 well as the specific incremental cost associated with the
6 product.

7 Q: That's correct. And, you know, obviously, one of our concerns
8 is that, uh, that pot is bigger than it ordinarily would have
9 been and then, y'know, the incremental cost is, of that is
10 smaller than it would have been, were it not...

11 A: With all due respect, I understand your concern. I'm just
12 telling you it ain't true, in as specific a way as I know how.
13 I don't know how to be any more specific than I've been. But
14 I certainly understand your line of questioning. I've been in
15 this business for a long time.

16 Q: I can tell. (Laughter) Well, I can't think of any more
17 questions that I have, sir. Don? I want to say I appreciate
18 your time.

19 A: Oh, you're more than welcomed. I'm sorry that it has to be on
20 such a subject that seems to be contentious, because it really
21 was a fine piece of work that my organization did at the time
22 this was done, and it appears that in studying it we've picked
23 up an angle of question that makes you think there was some
24 underlying reason that wasn't appropriate, and to my
25 knowledge, that was not the case. It was a fine piece of work
26 and all of the folks that pay our rates benefitted, and the

1 commission benefited, and it was a good thing to do. So, I
2 sure respect the fact that you have to chase every lead that
3 you think is appropriate and we were glad to cooperate with
4 you.

5 Q: Thank you.

6 A: Good luck to you.

7 [end of tape]

BELLSOUTH
TELECOMMUNICATIONS (

36M66 Southern Bell Center
675 West Peachtree Street, NE
Atlanta, Georgia 30375

January 21, 1994

Mr. Don Craig
Room 267
Georgia Public Service Commission
244 Washington St., S.E.
Atlanta, Georgia 30334-5701

Don:

As requested, SBT's response to the twenty-fourth audit data request is attached. Upon your request, we have sent an identical package to Snavely & King, care of Mike Majoros. Some responsive but proprietary information related to this request-set is ready for your review during your next visit.

As you are aware, the format of this set of data requests differs significantly from that of previous sets. Rather than being propounded in the form of questions, the requests more closely resemble random statements or thoughts from which it is sometimes difficult to discern the precise issue to be addressed. Moreover, to the extent some of these requests appear similar to requests for admission, we note that you did not characterize them as such and we did not treat them as such. Nonetheless, we have diligently tried to respond to the "requests" as we understand them and will be happy to provide clarification during your impending visit.

When reviewing our responses, please keep in mind the clarification we agreed to by telephone concerning the interpretation of "competitive" and "basic" in the context of switch lines. As you recall, "competitive" and "basic" were to be construed as "ESSX" and "business and residence" respectively.

Please also note that to the extent Requests or Responses would reflect quantifiable data about our relationship with vendors (i.e., prices, units), we have redacted that information from the enclosed materials. As always, unredacted copies of these materials will be available for your on-site review. Also, please refrain from including such data in future requests or other documents. We consider this data to be proprietary and governed by the terms of the agreement we have for handling such information. We will, of course, be happy to work with you to respond to any request you might have that by its terms would otherwise disclose proprietary information.

*ESSX is a registered trademark of BellSouth

Mr. Don Craig
Page 2
January 21, 1994

I'm happy to report that Mark Stephen will be assisting you at Southern Bell Center throughout your visit. (Mark acted in a similar capacity at Perimeter during the fall of 1992.) When you arrive at the building on Monday, please call my number to arrange for building access. If I am away from my desk or on the telephone, please dial "0" and ask for Mark.

We look forward to seeing you, Mike and Jim next Monday.

Please call me with any questions or concerns.



Michele Young
Docket Manager
529-8512

cc w/atts: Mike Majoros
cc w.o./atts: Kirven Gilbert
Dave Williams

Southern Bell Telephone & Telegraph Co.
Georgia PSC Audit Request
Item No. 121
24th Data Request
Page 1 of 2

REQUEST: SESS Price Restructure Effects

"Competitive" feature costs were reduced on per line basis.

"Basic" Residence and Business features were regrouped. Average cost per line increased.

RESPONSE: One of the results of AT&T's SESS* "price restructure" was that the SE BRCS Feature Packages were also restructured.

"Universal" BRCS replaced BRCS I at restructure. This new Universal BRCS Feature Package contains six additional features that were not included in BRCS I. This change makes it impossible to make a meaningful comparison between the BRCS I and Universal BRCS feature packages' pre- and post-restructure. Moreover, AT&T introduced a per-line RTU fee structure for the Universal BRCS feature package, while the previous, more limited BRCS I feature package had to be licensed only on a full switch module (SM) basis. Since each SESS SM can support anywhere from 0 to over 2,000 lines, any simple comparison between the per line RTU fee structure of the enhanced Universal BRCS feature package with the per switch module RTU fee structure for the more limited set of BRCS I features would be invalid.

The restructure also affected the RTU structure of ESSX related features. The majority of the features from the BRCS II feature package were combined with another set of ESSX related features (BRCS III), that previously, had been licensed separately. This combined feature package was denominated BRCS Centrex. Again, however, Centrex differs from previous BRCS packages of ESSX features, simple comparisons of pre- and post-restructure RTU fees for the different packages are not meaningful.

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The Company has previously provided detailed examples and explanations of both initial and growth switch projects using actual firm price quotes (FPQ). The actual contracts and price lists, both before and after restructure, were also provided. These documents and explanations all showed that another result of AT&T's restructure was an overall reduction in the price per line. Therefore, BellSouth cannot agree that the average price of any line increased as a result of this restructure.

*SESS is a trademark of AT&T

INFORMATION PROVIDED BY: Steve Manion
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Southern Bell Telephone & Telegraph Co.
Georgia PSC Audit Request
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REQUEST: Initiation of Price Restructure

BellSouth initiated the Price Restructure described in Michael Ward's April 3, 1990 AT&T Switch Price restructure, and ~~maintained~~ ^{MAN. (re-est.)} in Contract No. PR-6700-B.

See August 24, 1989 letter from D. W. Jones (BSS) to J. R. Criser (AT&T).

See November, 1989 letter from C. S. Boren (BSS) to F. S. Topor.

RESPONSE: (It is important to note in response to this, and several subsequent questions, that "price restructure" was actually effected in Contract PR-2774-B, Amendment 3. This amendment went into effect on 1/1/91. Contract PR-6700-B replaced PR-2774-B and became effective on 1/1/92.)

As previously stated in the Company's response to item 118 D, AT&T's price restructure was implemented nationwide and was in no way unique to BellSouth. The letters listed in the request, respectively, conveyed to AT&T a feature priority list for SESS² and LAESS switches and the Company's concern that AT&T's pricing strategy and policies caused its growth and software prices to be too high. However, it is highly unlikely that the concerns expressed by one customer, albeit a major one, would cause an overall nationwide change in AT&T's switch pricing. Rather, the restructure was initiated by AT&T to address its own perceptions of the marketplace.

²SESS is a registered trademark of AT&T

INFORMATION PROVIDED BY: Steve Manion
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Atlanta, GA 30375

Southern Bell Telephone & Telegraph Co.
Georgia PSC Audit Request
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REQUEST: Effect of Contract PR-6700-B

Rate Base Increased.

Average cost of basic residence line increased.

Average cost of basic business line increased.

Average cost of ESSX^a line decreased.

Other?

RESPONSE: (As noted in the response to item #122, the actual agreement that implemented "price restructure" was Contract PR-2774-B, Amendment 3, effective 1/1/91.) The changes introduced by this agreement did not necessarily result in an increase in the Company's revenue requirements. Generally, net investment will increase when a significantly depreciated switch is replaced by a new switch. However, this may not impact revenue requirements or overall costs since newer technology usually has less associated maintenance expense and offers significantly more revenue potential.

Furthermore, deployment of a new switch is based upon a number of factors including access line growth, maintenance considerations, regulatory requirements, and customer needs. Any initial or growth switch procurement is carefully reviewed by the Company and an economic evaluation is performed for each purchase decision. The auditors have had numerous interviews with the Company's SMEs regarding switch procurement and implementation. In addition, literally hundreds of telephone equipment orders, and other voluminous documentation, have been provided to demonstrate this process.

^aESSX is a registered trademark of BellSouth Telecommunications

Southern Bell Telephone & Telegraph Co.
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Finally, as has been addressed in other responses to this data request set and in numerous interviews with Company personnel and documented information previously supplied to the auditors, the Company does not agree with the second, third and fourth statement in this request. The Company has repeatedly demonstrated that "price restructure" resulted in an overall reduction in line costs.

INFORMATION PROVIDED BY: Frances E. Dennis
Operations Manager
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Southern Bell Telephone & Telegraph Co.
Georgia PSC Audit Request
Item No. 125
24th Data Request
Page 1 of 1

REQUEST: Definition of Price Restructure

BellSouth definition of price restructure as reflected in Michael Ward's April 3, 1990 presentation, all-related correspondence, and Contract No. PR-6700-B?

RESPONSE: BellSouth presented its interpretation of AT&T's nationwide price restructure to the auditors on November 16, 1993. Proprietary information showing representative price changes was also provided. This documentation, as well as other responsive materials identified above, continues to be available for review on Company premises upon reasonable notice.

(Please note that AT&T's price restructure was introduced in Contract PR-2774-B, Amendment 3, effective 1/1/91, not Contract PR-6700-B, as stated in this request.)

INFORMATION PROVIDED BY: Steve Manion
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Southern Bell Telephone & Telegraph Co.
Georgia PSC Audit Request
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REQUEST: Effect of Price Restructure

Canceled order with Northern Telecom for purchase of switch of Chamblee.

Signed contract with AT&T with purchase of switches,
of these are in the Atlanta metro area.

Other?

RESPONSE: As has been explained previously, neither the cancelled order for the Northern Telecom switch nor the contract with AT&T for multiple switches was an effect of the price restructure. The price restructure was merely an amendment to an existing contract with AT&T (PR-2774-B) that modified the price list for orders, mainly for growth and upgrades, placed against that contract. The Company has a similar contract with Northern Telecom to govern orders placed against it. The Northern Telecom order for the Chamblee office was issued against that contract, but later delayed due to lower than forecasted line growth. The Chamblee office was subsequently included in a list of offices identified for switch replacements in a longer time frame, i.e., 1991 to 1996. This list was included in a request for quotation (RFQ) sent to switch vendors, including both AT&T and Northern Telecom. As a result of this RFQ process, AT&T was awarded switch orders for a number of offices, including Chamblee, and Northern Telecom was awarded others. Each RFQ response contained its own pricing structure and was specific to central office locations. The RFQ responses were not dependent on pricing in the existing contract price lists. Thus, the RFQ price on which AT&T was awarded the Chamblee office and other locations were not the effect of price restructure. The only relationship between the RFQ responses and the existing contracts was that switch procurement under the RFQ responses were to be governed by the general terms and conditions (i.e., boilerplate) of the existing contracts and were to be counted toward any dollar volume commitment of switching products contained in the respective contracts.

INFORMATION PROVIDED BY: Steve Manion
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Southern Bell Telephone & Telegraph Co.
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REQUEST: Revenue/Risk Sharing

Explanation of Revenue/Risk sharing resulting from
restructured per line pricing?

RESPONSE: As the Company stated in its response to Item 118 F and
as has been explained in interviews with Company
personnel, the Company did not pursue any type of
revenue sharing with AT&T, and neither revenue nor risk
sharing resulted from AT&T's restructured switch
pricing.

INFORMATION PROVIDED BY: Steve Manion
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Southern Bell Telephone & Telegraph Co.
Georgia PSC Audit Request
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REQUEST: Contract PR-6700-B Prices

Prices in contract are the same as those shown in April 3, 1990 Michael Ward presentation, except universal BRCS. Actual universal BRCS price per contract is //line rather than /line shown in Ward presentation.

RESPONSE: As stated in prior responses, AT&T's "Price Restructure" was implemented and became incorporated into PR-2774-B, Amendment 3. PR-2774-B, Amendment 3 went into effect on 1/1/91. The Price Factor Table for this Contract Amendment reflects a /line RTU fee for Universal BRCS, which is consistent with the Ward presentation.

Subsequently, AT&T initiated price revisions for SESS^a equipment which were permitted under the contract. These price changes went into effect on 1/1/92 concurrent with execution of Contract PR-6700-B. One of the price changes was an increase in the Universal BRCS per-line RTU fee from to

^aSESS is a registered trademark of AT&T

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Southern Bell Telephone & Telegraph Co.
Georgia PSC Audit Request
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REQUEST: April 3, 1990 Michael Ward AT&T Presentation

- Basic savings shown in presentation are overstated due to use of /line universal BRCS charge rather than /line BRCS universal charge per Contract PR-6700-B.
- Cost shift from ESSX to universal per April 3, 1990 presentation is overstated due to use of /line BRCS universal charge rather than /line charge per Contract PR-6700-B.
- Presentation reflects BellSouth issues.

RESPONSE: As explained in the response to Item 128, was the correct rate for Universal BRCS per-line RTU fee. (Contract PR-2774-B, Amendment 3, not Contract PR-6700-B implemented "restructure.") Therefore, the amount stated in this presentation is accurate.

The Company cannot address materials prepared by AT&T other than to suggest that the AT&T presentation reflects AT&T's characterization of various items as "BellSouth issues." As the Company has explained in previous interviews, the presentation is not an accurate portrayal of matters of unique concern or relevance to the Company.

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Southern Bell Telephone & Telegraph Co.
Georgia PSC Audit Request
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REQUEST: Price Restructure Expense vs. Capital

- AT&T believes that its price restructure changed the mix between capital and expense dollar prices for a SESS¹ switch with expense decreasing and capital increasing, but the average bottom line switch system price remained consistent with the previous SESS price plan.

See February 8, 1990 Topor letter to Boren; April 3, 1990 Michael Ward Presentation; June 12, 1990 Mauriello letter to Boren; and July 20, 1990 Puckhaber memo to Sweet.

- BellSouth official position is that the price restructure did not result in a shift of expense to capital.

RESPONSE: Regarding the first request-point, BellSouth cannot speak for AT&T. However, in an effort to be responsive, the Company respectfully submits that it has repeatedly addressed the auditors' concerns in this regard. A

The Company has previously provided its general position on this request in its responses to Items 118 A; B; C; D; F; and G. The Company also has facilitated numerous meetings between the Auditors and Company SMEs where this topic, and its underlying documentation, were reviewed in detail. The Company provided and explained actual Firm Price Quotes for both initial and growth switch projects. This effort affirmed that there was no shift from expense to capital as a result of AT&T's "price restructure". (The documentation cited in the second request-point was initially supplied in response to item 118. It was also discussed in Auditor-Company meetings.)

Throughout all of this activity, the Company has demonstrated that AT&T's price restructure did not result in a shift of expense to capital.

¹SESS is a registered trademark of AT&T

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Southern Bell Telephone & Telegraph Co.
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REQUEST: Effect of Price Restructure

- BellSouth expressed concern about new service introduction.
- Pricing for the three BRCS packages will now be on a per line basis, providing maximum flexibility to introduce new services.

RESPONSE: While this request is extremely vague and ambiguous, the Company will attempt to respond to the greatest degree possible.

With respect to the first request-point, the Company is not able to discern the precise issue to be addressed. Clearly, BST, like any company, will have "concerns" associated with new service introduction or availability. One such concern is that vendors' prices for underlying components may be too high. The Company acknowledges that it expressed this concern to AT&T. Beyond this, we cannot determine whether a question is being asked to which we can respond with specificity.

Before addressing the second request-point, it is important to note that per line pricing has always been available in BRCS Feature Packages, with the exception of BRCS I. As reported in the response to Item 121, BRCS I was replaced by "Universal" BRCS in the SESS² coincident with AT&T's "restructure". "Universal" BRCS includes per line pricing instead of the per Service Module (SM) pricing associated with its predecessor. Per line pricing, combined with additional feature-functionality, differentiated "Universal" BRCS from BRCS I. The addition of these attributes enabled the Company both to provide features for customers to whom the features otherwise would have been available only from switches equipped with BRCS II packages and to do so by paying an RTU fee for the Universal BRCS package on a per line basis rather than having to pay an RTU fee for a full switching module. Thus, the Company was afforded greater flexibility in equipping its switches to bring new services to its customers.

²SESS is a registered trademark of AT&T

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Southern Bell Telephone & Telegraph Co.
Georgia PSC Audit Request
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REQUEST: Price Restructure

Average ESSX cost went down. Did or will this provide a benefit to ESPs and other users of our services, including SBT as an ESP (provider of MemoryCall®)? If not, were there other aspects of price restructure and Contract PR-6700-B that provides these benefits.

RESPONSE: As has been previously explained, the current BRCS Centrex package that facilitates availability of features specific to ESSX® service contains a different mix of features than its predecessors and is priced at a lower per line RTU fee. BST's customers, however, who want to buy features associated with their ESSX service, continue to buy those features essentially at the same tariffed rate as before, regardless of whether the feature is now enabled via the previously described "Universal" BRCS package or the current BRCS Centrex (ESSX) package. Thus, there was no immediate rate benefit to ESPs (including SBT's MemoryCall service) or other ESSX customers. As explained previously, however, BST's customers, and in particular its non-ESSX customers, do benefit from the regrouping of a greater number of non ESSX-specific features in the Universal BRCS package and the availability of this package with a per line price structure, compared to the more limited set of BRCS I features that were only available to BST on a per switch module price structure. (See response to Item 132 for more information.)

®ESSX and MemoryCall are registered trademarks of BellSouth

INFORMATION PROVIDED BY: Michele Young
Staff Manager
36M66 675 W. Peachtree St.
Atlanta, GA 30325

Southern Bell Telephone & Telegraph Co.
Georgia PSC Audit Request
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REQUEST: Chamblee - Price Restructure

Only AT&T and NTI were studied as replacements for the Chamblee LAESS. AT&T beat NTI substantially on both first cost and growth. How did NTI get any of the approximately {total switch purchase orders?

RESPONSE: Each vendor that responded to the Request For Quotation (RFQ) was allowed to provide its best price quote on any individual office listed. Vendors were not required to provide the same level of discounts for all offices upon which they submitted bids. Therefore, each office was analyzed and awards were made based on each office's individual characteristics. As a result of these analyses, AT&T was selected for some offices; Northern Telecom for other individual offices.

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 Staff Manager
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Southern Bell Telephone & Telegraph Co.
Georgia PSC Audit Request
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REQUEST: Contract PR-6700-B

- How are first engineering costs treated and billed?
- Is PR-6700-B still in effect? Agreement was between BSS and AT&T. BSS no longer exists. Who are parties to new agreement?

RESPONSE: Engineering costs are listed in the Price Factor Table of the Contract. Engineering costs are divided into two categories - 1st and additional. If a switch unit is ordered in multiples (a quantity greater than one), the engineering cost in the "1st" column is applied for the first unit; the engineering costs in the "additional" column applies to every unit after the first. If only one unit is ordered, the engineering cost in the 1st column applies.

Contract PR-6700-B is still in effect. On January 1, 1992, BellSouth Services, Inc., Southern Bell Telephone and Telegraph Company, and South Central Bell Telephone Company were merged and became a single legal entity named "BellSouth Telecommunications, Inc." (BST). While the trade names "Southern Bell" and "South Central Bell" will remain in use, all of BellSouth Services rights and obligations were vested in BST by operation of law, and BST is now the party to that contract with AT&T

INFORMATION PROVIDED BY: Steve Manion
Project Manager
675 W. Peachtree St.
Atlanta, GA 30375

MEMORANDUM

TO: Mr. Joseph Mauriello
DATE: January 26, 1994
FROM: Don Craig
RE: AT&T Presentation to BellSouth and December 21, 1993 Interview.

I understand that you have received from BellSouth the missing pages from AT&T's April 1990 presentation. That presentation formed the basis for our December 21, 1993 interview with you.

Attached to this memorandum is December 22[✓], 1993 memorandum summarizing Mr. Majoros' and my notes taken during that interview. Please review these and send me your comments and any clarifications or corrections that should be made. I will attach your comments to the December 22[✓], 1993 memorandum in our workpapers.

We would like to have another discussion with you after you have had a chance to review the pages missing from the April 1990 presentation. I will call you to set-up a time for this discussion.

Thank you.

cc: T. Hobbs

MEMORANDUM

TO: File

DATE: December 22, 1993

FROM: Michael J. Majoros, Jr. and Don Craig

RE: A December 21, 1993 Interview of Mr. Joseph Mauriello by Don Craig and Michael Majoros.

The interview was held in the offices of AT&T. It was attended by Mr. Gene Coker, Mr. Joseph Mauriello and Mr. Don Craig. Michael Majoros participated in the interview via telephone. Mr. Mauriello was informed of the purpose of the interview which is summarized in a Seven Point document handed to him by Don Craig. In summary, the purpose of the interview was as follows:

- 1) Obtain information regarding the goal and result of the AT&T 5 ESS price restructure.
- 2) Determine whether it was BellSouth's intent to gain some regulatory advantage by causing a shift of cost from expense to capital resulting in a ratebase buildup.
- 3) Determine whether price restructure resulted in a cross-subsidy among certain customer classes of Southern Bell.
- 4) That is, did AT&T regroup and reprice those features generally selected by basic residential and business customers and those features needed to provide ESSX service?

- 5) Did this regrouping and repricing result in the average cost per line increasing for basic residential and basic business customers, while the average per line cost for the competitive ESSX customers decrease?
- 6) Was there an overall decrease in initial and growth software cost?
- 7) Did AT&T remain whole by increasing the costs for material capitalised?

Below is a summary of the questions that were asked of Mr. Mauriello and his responses thereto.

Q1. Did, as a result of the AT&T price restructure, total hardware prices increase (for a typical fully equipped switch module) while software prices decreased? If yes, what? where? demonstrated in the April 1990 presentation and what equipment prices went up?

A1. Mr. Mauriello responded yes. Mr. Mauriello stated that this was a national price roll-out and that it had nothing to do specifically with the Southern Regional operations. Mr. Mauriello indicated that a national price roll-out was necessary to change the way AT&T was doing business, but that no pressure from any single customer was exerted upon AT&T, however pressure from all customers was exerted. Mr. Mauriello discussed the fact that prior to this price restructure, there were two separate business units within AT&T, one for the 1A ESS switch and another business unit for the 5 ESS switch. He indicated that they were going about

their business separately and pricing things in inconsistent ways. The market place impact needed to be addressed.

Q2. Did the price restructure result in a change in the mix of capital and expense dollar prices for a 5 ESS switch with expense decreasing and capital increasing, but the average bottom line switch system price remain consistent with the previous price plan?

A2. Mr. Mauriello stated yes. There was a change in the mix, but the total price did not go up or down. (He emphasized that was the intent and that was the result of the price restructure in response to Question 10.) Mr. Mauriello indicated that this was a revenue neutral price restructure. Mr. Mauriello was asked the meanings of the words "capital" and "expense" from his viewpoint. He stated that capital was equivalent to hardware in the 5 ESS switch and that expense was equivalent to software or generic upgrades for the 5 ESS switch. Finally, Mr. Mauriello indicated that what AT&T was after was to be paid for its switch no matter how the payment is split between capital or expense.

Q3. Is it AT&T's policy to price 5 ESS features based upon their development cost and value added?

A3. Mr. Mauriello stated yes. He indicated that AT&T would not price any features below cost because he believes that is illegal.

Q4. How could it be that the restructured prices were based upon cost after the restructure if they were based upon cost prior to the restructure and the restructure was in fact revenue neutral?

A4. Mr. Mauriello indicated that AT&T always covered its costs. He stated that prior to the restructure, AT&T managed its business on a product management group basis. For switching, there were two independent development groups: hardware and software. Each group had unique profit margins. Now the development groups are unified as business units: switching (hardware and software), transmission, cable, etc.

We returned to this issue later in the interview. Mr. Majoros' notes indicated that Mr. Mauriello made the following statements in this conversation. He will make a lot of money from residential...??? (It is not clear whether Mr. Mauriello was referring to AT&T or BellSouth.) Give the total package up front...??? Don't price to match the revenue potential of market...??? Will sell for same price throughout territory - sell generics at set price to customers to use however he wants...??? ISDN is equivalent to a growth job.

Q5. Why was this done and how does it relate to cost?

A5. Mr. Mauriello brought up the concept of basic research cost. He indicated that basic research cost allocations may have had something to do with the restructure, but that was only speculation on his part.

Q6. Could you explain the concept of Revenue Sharing as used in Mr. Topor's February 8, 1990 letter?

A6. Mr. Mauriello responded again, that this price restructure was a national offering and that AT&T had discussed revenue sharing with all of its customers. It was the desire of